

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-01

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 DODE-00 PM-03

H-01 L-02 NSC-05 PA-01 PRS-01 SS-15 USIA-06 SAJ-01

FEA-01 INT-05 /098 W

----- 111543

R 111837Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8166

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ETRD, EEC, UK

SUBJECT: HAS EC MEMBERSHIP WORSENEED BRITAIN'S TRADE  
DEFICIT?

REF: LONDON 847

SUMMARY: IN THE PRELIMINARY SKIRMISHES OF THE  
CAMPAIGN FOR THE JUNE REFERENDUM ON THE EC, THE ANTI-  
MARKETEERS ARE ARGUING -- OR AT LEAST IMPLYING -- THAT  
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MEMBERSHIP HAS AGRAVATED BRITAIN'S TRADE DEFICIT. THIS  
IS A HIOHLY MISLEADING CLAIM. IT IS TRUE THAT THE UK

HAS HAD AN INCREASINGLY LARGE DEFICIT WITH THE OTHER EC MEMBER STATES SINCE IT JOINED THE COMMUNITY IN 1973, AS IT HAS WITH THE WORLD AS A WHOLE. HOWEVER, IF EC MEMBERSHIP IN ITSELF HAS HAD ANY EFFECT ON BRITISH TRADE, IT HAS PROBABLY BEEN MARGINAL, AND JUST AS LIKELY TO HAVE BEEN POSITIVE AS NEGATIVE. THERE ARE A NUMBER OF OTHER REASONS FOR BRITAIN'S POOR TRADE PERFORMANCE, INCLUDING DOMESTIC ECONOMIC POLICIES AND PROBLEMS, THE INITIAL EFFECTS OF THE DEPRECIATION OF STERLING AGAINST EUROPEAN CURRENCIES, INCREASED AGRICULTURAL IMPORTS FROM THE EC, AND THE RISE IN THE COST OF IMPORTS OF PETROLEUM AND RELATED PRODUCTS FROM THE EC. MOST OF THESE FACTORS WOULD HAVE BEEN PRESENT WHETHER OR NOT BRITAIN HAD BEEN A MEMBER OF THE COMMUNITY. END SUMMARY

1. IN HIS ANTI-MARKET SPEECH AT BRIGHTON IN MID-JANUARY (REFTEL), THE SECRETARY OF STATE FOR TRADE, PETER SHORE, ARGUED THAT THE GROWING DEFICIT IN THE UK'S TRADE WITH THE OTHER EC MEMBER STATES HAS SHOWN THAT THE "CONVENTIONAL WISDOM" ABOUT THE ECONOMIC ADVANTAGES OF BRITISH MEMBERSHIP IS "DISASTROUSLY WRONG."

2. SHORE AVOIDED GIVING THE REASONS FOR BRITAIN'S TRADE IMBALANCE WITH THE EC. "JUST WHY IT SHOULD HAVE DEVELOPED SO DISASTROUSLY," HE SAID, "IS NOT EASY TO ANSWER." NEVERTHELESS, HE LEFT THE IMPRESSION -- NO DOUBT INTENTIONALLY -- THAT THE DEFICIT WAS A RESULT OF BRITAIN'S ENTRY INTO THE COMMUNITY.

3. THE DETERIORATION IN BRITAIN'S TRADE BALANCE WITH THE EC IS LIKELY TO BE A MAJOR PLANK IN THE ANTI-MARKET CAMPAIGN FOR THE REFERENDUM ON THE EC THAT IS EXPECTED IN JUNE. THERE IS NO CONVINCING EVIDENCE, HOWEVER, THAT MEMBERSHIP HAS BEEN A SIGNIFICANT CAUSE OF THE DEFICIT, OR THAT BRITAIN WOULD HAVE HAD A MORE FAVORABLE TRADE BALANCE IF IT HAD NOT BEEN IN THE COMMUNITY. IN FACT, THE BALANCE MIGHT HAVE BEEN SOMEWHAT LESS FAVORABLE AS A RESULT OF HIGH WORLD FOOD PRICES, SINCE BRITAIN'S AGRICULTURAL IMPORT BILL WOULD LIMITED OFFICIAL USE  
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HAVE BEEN HIGHER IF IT HAD BEEN OUTSIDE THE EC.

4. BRITAIN'S TRADE WITH THE EC HAS BECOME AN INCREASINGLY IMPORTANT PART OF ITS OVERALL TRADE. THIS TREND, WHICH BEGAN IN THE 1960S, HAS CONTINUED IN THE 1970S. SINCE 1971, EXPORTS TO THE REST OF THE EC HAVE INCREASED ON AN AVERAGE OF ABOUT 21 PER CENT PER YEAR, AS COMPARED WITH 17 PER CENT FOR OVERALL EXPORTS. DURING THE SAME PERIOD, BRITAIN'S IMPORTS FROM THE EC INCREASED EVEN FASTER, AT AN ANNUAL RATE OF 31 PER CENT, AS COM-

PARED WITH 24 PER CENT FOR THE WORLD AS A WHOLE. THE  
UK'S DEFICIT WITH THE OTHER MEMBER STATES HAS GROWN FROM  
256 MILLION POUNDS IN 1971 TO 580 MILLION IN 1972, 1167  
MILLION IN 1973 (THE FIRST YEAR OF BRITISH MEMBERSHIP)  
AND 1941 MILLION IN THE FIRST ELEVENT MONTHS OF LAST  
YEAR.

5. THE PRO-MARKETEERS NOTE THAT BRITAIN'S DEFICIT  
WITH THE COMMUNITY HAS REPRESENTED A DECLINING SHARE OF  
ITS OVERALL DEFICIT. THE EC DEFICIT ACCOUNTED FOR 40  
PER CENT OF THE OVERALL DEFICIT IN 1971, 42 PER CENT IN  
1972, 34 PER CENT IN 1973 AND 32 PER CENT IN 1974. THE

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ANTI-MARKETEERS POINT OUT, HOWEVER, AS SHORE DID IN HIS BRIGHTON SPEECH, THAT FOR 1974, AT LEAST, ONE HAS TO TAKE ACCOUNT OF THE SHARP INCREASE IN THE COST OF OIL IMPORTS FROM OPEC COUNTRIES IN MAKING COMPARISONS OF THIS KIND.

6. ENTRY INTO THE COMMUNITY HAS NO DOUBT STIMULATED BRITISH TRADE WITH THE OTHER MEMBER STATES AND HAS ACCOUNTED FOR AT LEAST SOME OF THE RISE IN EXPORTS AND IMPORTS. CUSTOMS DUTIES BETWEEN THE U/K AND THE SIX  
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WERE REDUCED BY 20 PER CENT ON APRIL 1, 1973, AND BY AN ADDITIONAL 20 PER CENT ON JANUARY 1, 1975. ENTRY HAS ALSO INCREASED THE INTEREST OF THE COUNTRIES ON BOTH SIDES OF THE CHANNEL IN EACH OTHER'S MARKETS. THE EFFECTS OF ENTRY ON TRADE FLOWS CANNOT BE ISOLATED OR MEASURED ACCURATELY. IT SEEMS REASONABLE TO ASSUME, HOWEVER, THAT THE EFFECTS HAVE WORKED IN BOTH DIRECTIONS, AND THAT THEY DO NOT, THEREFORE, EXPLAIN THE DEFICIT.

7. THE DEFICIT CAN BE EXPLAINED BY A NUMBER OF FACTORS. SOME OF THESE RELATE DIRECTLY TO TRADE WITH THE REST OF THE COMMUNITY, OTHERS TO BRITAIN'S OVERALL TRADING POSITION. ALMOST ALL OF THESE FACTORS WOULD HAVE BEEN PRESENT WHETHER OR NOT BRITAIN HAD BEEN A MEMBER OF THE COMMUNITY. THE FACTORS ARE: A) THE REFLATIONARY POLICIES OF THE CONSERVATIVE GOVERNMENT WHICH SUCKED IN IMPORTS, ESPECIALLY MANUFACTURED GOODS; B) LOW PRODUCTIVITY AND INDUSTRIAL RELATIONS PROBLEMS IN THE UK, WHICH LIMITED THE EXPANSION OF EXPORTS; C) THE DEPRECIATION OF STERLING, WHICH HAS BEEN MORE EXTENSIVE AGAINST OTHER MAJOR EUROPEAN CURRENCIES THAN IT HAS BEEN AGAINST THE DOLLAR OR OTHER NON-EUROPEAN CURRENCIES, AND WHOSE INITIAL EFFECT WAS TO WORSEN THE UK'S TERMS OF TRADE; D) THE INCREASE IN BOTH THE VALUE AND VOLUME OF FOOD IMPORTS FROM THE COMMUNITY, WHICH ACCOUNT FOR ABOUT 20 PER CENT OF ALL UK IMPORTS FROM THE EC. THE VALUE INCREASED BECAUSE OF PRICE INCREASES, THE VOLUME BECAUSE THE UK HAS BEEN SWITCHING FROM TRADITIONAL MARKETS TO LOWER-COST COMMUNITY SUPPLIES; E) THE INCREASED COST OF IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS FROM THE COMMUNITY, WHICH ACCOUNT FOR ABOUT 10 PER CENT OF THE UK'S IMPORTS FROM THE EC; F) REDUCED DOMESTIC OUTPUT DUE TO SPECIAL PROBLEMS -- SUCH AS PLANT BREAKDOWNS -- IN CERTAIN SECTORS IN THE UK,

FOR EXAMPLE CHEMICALS AND STEELS.

8. THE ARGUMENT THAT EC MEMBERSHIP HAS HAD DAMAGING EFFECTS ON TRADE IS, THEREFORE, A GOOD EXAMPLE OF A POST HOC FALLACY -- WHICH WON'T STOP THE ANTI-MARKETEERS FROM USING IT. FOREIGN SECRETARY CALLAGHAN TOOK A MORE REASONABLE LINE IN THE HOUSE OF COMMONS ON DECEMBER LIMITED OFFICIAL USE

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18, WHEN HE SAID: "IT IS REALLY TOO SOON TO ARGUE THE CASE AS TO WHETHER EEC MEMBERSHIP HAS EITHER BENEFITTED US OR WORSENERD OUR POSITION IN RELATION TO THE BALANCE OF PAYMENTS. OTHER FACTORS INCLUDE THE ECONOMIC AND INDUSTRIAL SITUATION IN THE UK ITSELF AND CHANGES IN CURRENCY RELATIONSHIPS."

9. WE ARE FORWARDING BY AIRGRAM STATISTICS SHOWING THE EVOLUTION OF THE UK'S TRADE BALANCE WITH THE EC IN COMPARISON WITH ITS TRADE BALANCE WITH OTHER AREAS OF THE WORLD. SPIERS

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